

Free Soil Community School District

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2007

Free Soil Community School District

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FREE SOIL COMMUNITY SCHOOLS

Management's Discussion and Analysis

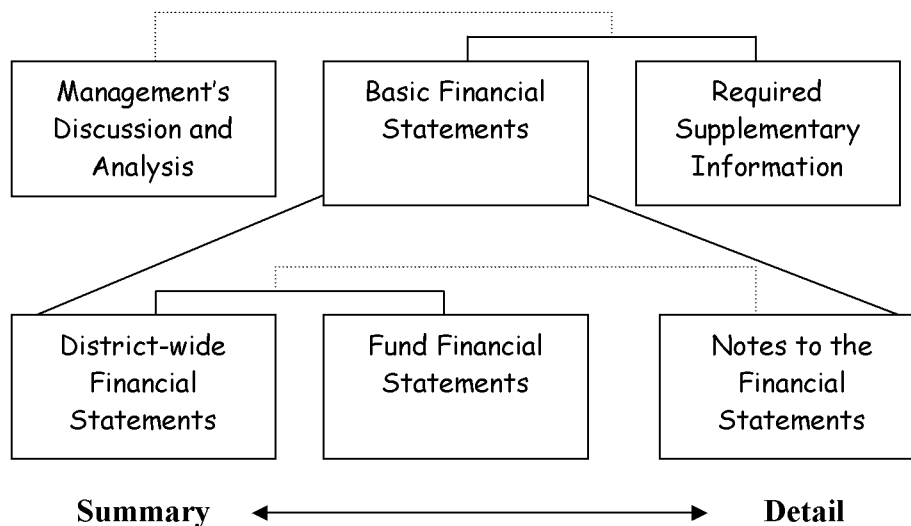
For the Fiscal Year Ended June 30, 2007

The discussion and analysis of Free Soil Community Schools' (district's) financial performance provides an overall review of the district's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to provide, in the layman's terms, a look at the district's performance and past and current position. Readers should also review the notes to the financial statements and financial statements to enhance their understanding of the district's financial performance.

Financial Highlights

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the district's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1
Free Soil Community Schools
Organization of Annual Financial Report



The basic financial statements include two kinds of statements that present different views of the district. The two kinds of statements are: 1) District-wide financial statements; and, 2) Fund financial statements.

FREE SOIL COMMUNITY SCHOOLS

Management's Discussion and Analysis

District-Wide Financial Statements

These statements are full accrual basis statements and provide information about the district's *overall* financial status. The full accrual basis means that all assets and liabilities of the District are recorded, regardless of when related cash is received or paid. They are used to help determine whether or not the District is better off or worse off as the result of the year's activities. It is important to keep in mind that while we are required to report financial information in this manner, it is not the goal of the District to generate a profit. Financial statements are just one indicator of the overall health of the District.

The *Statement of Net Assets* reports all of the district's assets and liabilities, both short-term and long-term, regardless if they are "currently available" or not. Capital assets and long-term obligations of the district are reported in this statement.

All of the current year's revenues and expenses are accounted for in the *Statement of Activities*, regardless of when cash is received or paid. The total revenue less the total expenses is referred to as the operating results for the current year. Sustained, positive operating results may indicate improving financial health, while decreasing operating results may indicate deteriorating financial health.

The two district-wide statements report the district's *net assets* and how they have changed. Net assets—the difference between the district's assets and liabilities—is one way to measure the district's financial health or position.

- Over time, increases or decreases in the district's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the district's overall health, you need to consider additional non-financial factors such as changes in the district's property tax base, the quality of the education provided, and the condition of the District's buildings.

In the district-wide statements, the district's activities are classified as *governmental activities*. This includes most of the district's basic services, such as regular and special education, food service, athletics, transportation, and administration. Property taxes, state aid and federal grants finance most of these services.

Fund Financial Statements

The fund financial statements focus on individual parts of the district, reporting the district's operations in more detail than the district-wide statements. The fund level statements are reported on a modified accrual basis and include only the current assets and current liabilities of the District. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". In the State of Michigan, the district's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Special Revenue Funds for Food Service and Athletic activities and Fiduciary Funds.

In the fund financial statements, capital asset purchases are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

FREE SOIL COMMUNITY SCHOOLS

Management's Discussion and Analysis

Financial Analysis of the District as a Whole

The net assets of the district at June 30, 2007 amounted to \$532,803. Figure A-2 shows a condensed breakdown of the net assets.

A large portion of the district's net assets, 70%, reflects investment in capital assets (e.g., land, buildings and improvements, and equipment), less any related debt used to acquire those assets that are still outstanding. The district uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the district's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Figure A-2
Condensed Statement of Net Assets

	Governmental Activities		Total
	<u>2007</u>	<u>2006</u>	<u>Percentage</u>
			<u>Change</u>
			<u>2006-07</u>
Current Assets	\$ 510,406	\$ 397,914	28.27%
Noncurrent Assets	<u>372,262</u>	<u>388,467</u>	-4.17%
Total Assets	882,668	786,381	12.24%
Current Liabilities	341,836	326,376	4.74%
Noncurrent Liabilities	<u>8,029</u>	<u>12,558</u>	-36.06%
Total Liabilities	349,865	338,934	3.23%
Net Assets			
Invested in capital assets, net of related debt	372,262	388,467	-4.17%
Restricted for sinking fund	57,481	48,704	18.02%
Unrestricted	<u>103,060</u>	<u>10,276</u>	902.92%
Total Net Assets	\$ <u>532,803</u>	\$ <u>447,447</u>	19.08%

FREE SOIL COMMUNITY SCHOOLS

Management's Discussion and Analysis

The net assets of the district increased by \$85,356 during the 2006-2007 fiscal year. Figure A-3 shows the breakdown of this change. The Statement of Activities presented later in the government-wide financial statements, provides greater detail on the district's annual activity. The cost of the district's governmental activities for the year was \$1,136,537. However, the amount that the district's taxpayers ultimately financed for these activities was only \$950,309 because \$10,930 of the cost was paid for by those who benefited from the programs, and the other \$175,298 was paid for by other governments and organizations who subsidized certain programs with grants and contributions.

Figure A-3

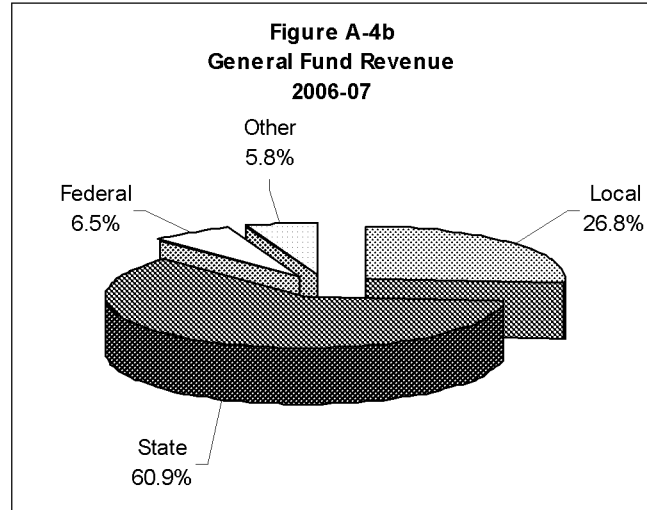
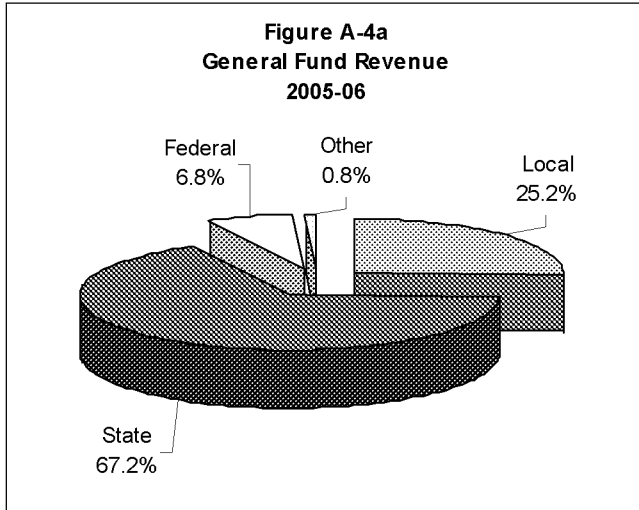
Statement of Net Assets from Operating Results

	Governmental Activities		Total Percentage Change 2006-07
	<u>2007</u>	<u>2006</u>	
Revenues			
Program Revenues			
Charges for services	\$ 10,930	\$ 22,136	-50.62%
Operating grants and contributions	175,298	207,810	-15.65%
General Revenues			
Property taxes - general purpose	267,452	255,214	4.80%
Property taxes - sinking fund	83,197	78,553	5.91%
Unrestricted grants and contributions	608,719	742,522	-18.02%
Investment earnings	6,282	4,852	29.47%
Miscellaneous	25,290	22,893	10.47%
Special item			
Gain on Sale of Land	<u>44,725</u>	<u>16,031</u>	178.99%
Total revenues	<u>1,221,893</u>	<u>1,350,011</u>	-9.49%
Expenses			
Instruction	633,856	769,465	-17.62%
Support services	438,634	467,246	-6.12%
Food services	45,432	71,318	-36.30%
Athletics	10,965	31,508	-65.20%
Interest on long-term debt	-	1,541	-100.00%
Unallocated depreciation	<u>7,650</u>	<u>7,650</u>	0.00%
Total expenses	<u>1,136,537</u>	<u>1,348,728</u>	-15.73%
Change in Net Assets	85,356	1,283	6552.84%
Beginning Net Assets	<u>447,447</u>	<u>446,164</u>	0.29%
Ending Net Assets	<u>\$ 532,803</u>	<u>\$ 447,447</u>	19.08%

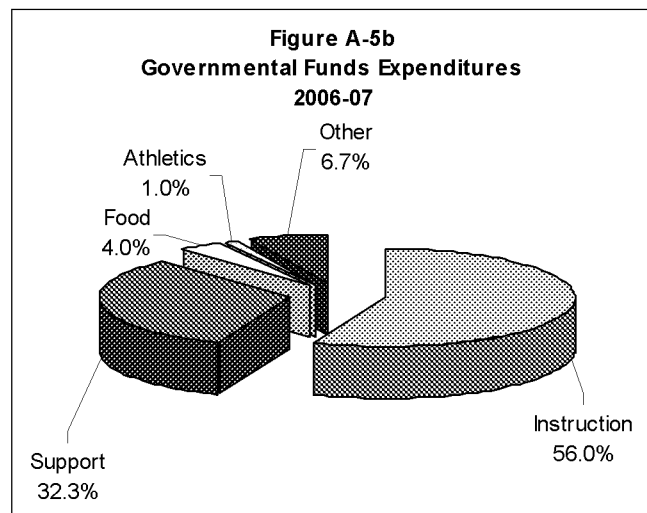
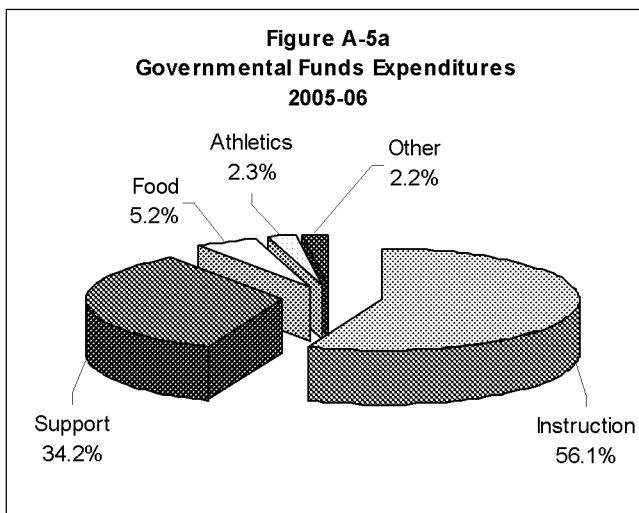
FREE SOIL COMMUNITY SCHOOLS

Management's Discussion and Analysis

A substantial portion, 67.2%, of the district's prior year revenue was received from State sources. For the year ended June 30, 2007, that percentage has declined to 60.9%. This means that the financial stability of the district rests primarily with the economic health of the State of Michigan and student enrollment. Figure A-4a depicts the breakdown of the source of revenue and other financing sources for the district's general fund during the 2005-2006 fiscal year, which totaled \$1,214,161. The breakdown for 2006-2007 fiscal year revenue, totaling \$1,100,827, is shown in Figure A-4b.



As Figure A-5a depicts, 56.1% of the district's prior year resources were spent on general fund pupil instruction. Another 34.2% was spent on support services necessary to efficiently operate the district, while the remaining 9.7% was spent on Athletics, Food Service, and Other Expenditures. Figure A-5b shows the breakdown of how the district spent the current year resources. The general fund pupil instruction decreased by 0.01%. Support services costs decreased to 32.3% and Athletics, Food Service, and Other Expenditures increased by 2.0%.



FREE SOIL COMMUNITY SCHOOLS

Management's Discussion and Analysis

Financial Analysis of the District's Funds

The financial performance of the district as a whole is reflected in its governmental funds as well. The combined governmental funds equity increased by \$98,032 during the 2006-07 fiscal year, resulting in fund equity of \$169,570 at the year end. The primary reasons for the increase in fund balance are:

- State aid funding was reduced by 17.9% due to a decline in the district's K-12 student enrollment.
- Instruction, support service, food service, and athletic expenditures decreased due to the following:
 - ◆ Instruction:
 - Reduced teaching staff from 13 teachers in 2005/06 to 8 teachers in 2006/07,
 - ◆ Support Services:
 - Interim superintendent at a lesser salary than his predecessor,
 - Pupil Support positions (class advisors, club advisors, et.) were performed on a volunteer basis,
 - ◆ Food Service:
 - Food service was outsourced to a third party, which lowered the food purchases,
 - Food service cook position was replaced by a food service aide at a lower salary,
 - ◆ Athletics:
 - Athletic director was changed to a volunteer position, and
 - All coaching was done on a volunteer basis.
- Food service and Athletic revenues decreased due to the following:
 - ◆ Food Service – declining enrollment resulted in fewer students to provide meals for, thus less revenues were received.
 - ◆ Athletics – declining enrollment resulted in fewer athletes available to participate in sporting events. Therefore, attendance at sporting events decreased, resulting in decreased gate revenue.
- The 2005 electorate approved sinking fund levy generated \$83,197 in property tax revenue.
- The district sold a parcel of land during the 2006/07 fiscal year.

FREE SOIL COMMUNITY SCHOOLS

Management's Discussion and Analysis

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the district amends its budget during the school year. These revisions are made in order to deal with unexpected changes in revenues and expenditures. The following analysis describes the significant General Fund final budget to actual variances and the reasons for changes in the budget during the year. Amounts are expressed to the nearest thousand.

Figure A-6

General Fund Budget vs. Actual Comparison

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Pos (Neg)</u>
REVENUES				
Local sources	\$ 328.1	\$ 294.4	\$ 294.9	\$ 0.5
State sources	703.7	663.9	669.7	5.8
Federal sources	43.1	72.4	71.9	(0.5)
Incoming transfers	<u>2.0</u>	<u>60.9</u>	<u>64.3</u>	<u>3.4</u>
Total revenues	1,076.9	1,091.6	1,100.8	9.2
EXPENDITURES				
Instruction				
Basic programs	575.0	513.4	473.3	40.1
Added needs	82.7	162.2	161.2	1.0
Support Services				
Pupil	14.7	1.5	1.5	-
Instructional staff	1.0	14.4	14.4	-
General administration	136.9	145.9	134.3	11.6
Business	32.1	35.0	38.0	(3.0)
Operations and maintenance	98.6	91.6	98.9	(7.3)
Pupil transportation services	95.5	86.2	75.3	10.9
Central	18.3	5.1	4.9	0.2
Outgoing transfers and fund modifications	<u>9.6</u>	<u>17.4</u>	<u>10.1</u>	<u>7.3</u>
Total expenditures	<u>1,064.4</u>	<u>1,072.7</u>	<u>1,011.9</u>	<u>60.8</u>
Excess (deficiency) of revenues over (under) expenditures	\$ <u>12.5</u>	\$ <u>18.9</u>	\$ <u>88.9</u>	\$ <u>70.0</u>

FREE SOIL COMMUNITY SCHOOLS

Management's Discussion and Analysis

Budget to Actual variances—There were two material budget vs. actual variances.

- Basic programs were under budget for the following reasons:
 - ◆ Unemployment for teachers still on lay-off status were lower than anticipated.
 - ◆ Possible retirement incentive for a former teacher was not incurred in the current year.
- General administration was under budget due to the fact that legal fees incurred were lower than had been anticipated.

Revenues—Significant changes in revenue budgets were as follows:

- The local source revenue budget was decreased due to original property tax budget assumption that the November 2006 Headlee override vote would pass.
- The state source revenue budget was originally budgeted at \$703.7 but was reduced to \$663.9 due to a reduction in pupil count.
- The federal source revenue budget was increased due to a REAP grant and Title II-A carry-over that was not included in the original budget.
- The incoming transfers revenue budget was increased for the proceeds of the sale of a parcel of land the district owned.

Expenditures—Significant changes in expenditure budgets were as follows:

- Basic programs budget was reduced for reclassification of expenditures to “added needs”.
- Added needs budget was increased as a result of the “basic programs” reclassification.
- Pupil budget was also reduced due to the reclassification of expenditures to “instructional staff”.
- Instructional staff budget was increased as a result of the “pupil” budget reclassification.

Capital Assets and Debt Administration

Capital Assets—a comparative summary of the district's capital assets (net of depreciation at year end) is identified below:

	<u>2007</u>	<u>2006</u>
Land	\$ 48,700	\$ 55,100
Buildings and improvements	<u>323,562</u>	<u>333,367</u>
Total	<u>\$ 372,262</u>	<u>\$ 388,467</u>

The school district sold a 32 acre parcel of land in 2006/07.

Debt Administration—a comparative summary of the district's indebtedness is outlined below:

	<u>2007</u>	<u>2006</u>
Compensated absences	\$ <u>9,029</u>	\$ <u>12,558</u>
Total	<u>\$ 9,029</u>	<u>\$ 12,558</u>

FREE SOIL COMMUNITY SCHOOLS

Management's Discussion and Analysis

Currently Known Facts, Decisions, and Conditions Affecting the June 30, 2008 Fiscal Year:

The economic climate in Michigan has not been positive. Because education funding is largely based on various state taxes, a slumping economy has a direct and negative impact on education funding. In the past five years, Michigan school districts have received only two increases in state funding levels. For the 2007-2008 fiscal year, state funding amounts are still unknown. However, it appears that inflationary cost increases in employee health insurance and retirement benefits will likely exceed any increase in funding. Rising energy and fuel costs will also strain operating budgets. As businesses have left the area to seek more favorable economic conditions, they have taken families with them. The population decline has resulted in Mason and Manistee County school districts competing with each other for students.

Free Soil Community School's has taken the following actions to reduce costs for the 2007/08 year:

- Secondary grades 9 through 12 have been outsourced to a neighboring school district.
- Teaching staff has been reduced from 8 teachers in 2006/07 to 4 teachers in 2007/08.
- The food service program continues to be outsourced to another public school which brings meals in for the Free Soil students.
- The Superintendent position continues to be a half-time position.
- The Bookkeeper's position has been reduced from a half-time position to a quarter-time position.

The Free Soil Education Association negotiated an updated collective bargaining agreement which will expire June 30, 2008. An 8-year 3.0 mill and an 8-year 2.5 mill Headlee override millage proposal for operations were successfully passed by voters in the May 2007 millage election. The tax restores the Operating Millage to the maximum 18.0000 mills schools are allowed to levy against non-homestead property.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, parents, students, and investors and creditors with a general overview of the district's finances and to show the district's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Superintendent of Schools, Free Soil Community Schools, 8480 N. Democrat Street, Free Soil, Michigan 49411, telephone number (231) 464-5651.

BRICKLEY DeLONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

September 24, 2007

Board of Education
Free Soil Community School District
Free Soil, Michigan

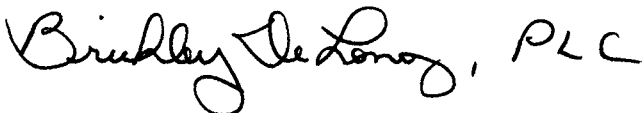
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Free Soil Community School District (the School District), as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Free Soil Community School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Free Soil Community School District, as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2007, on our consideration of Free Soil Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i - ix and page 22, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Free Soil Community School District
STATEMENT OF NET ASSETS
June 30, 2007

	ASSETS	<u>Governmental activities</u>
CURRENT ASSETS		
Cash and cash equivalents		\$ 390,593
Receivables		3,883
Due from other governmental units		108,080
Prepaid items		<u>7,850</u>
Total current assets		510,406
NONCURRENT ASSETS		
Capital assets, net		
Nondepreciable		48,700
Depreciable		<u>323,562</u>
Total noncurrent assets		<u>372,262</u>
Total assets		882,668
	LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES		
State aid loan		130,000
Accounts payable and accrued liabilities		170,276
Due to other governmental units		39,600
Deferred revenue		960
Compensated absences, due within one year		<u>1,000</u>
Total current liabilities		341,836
NONCURRENT LIABILITIES		
Compensated absences, less amounts due within one year		<u>8,029</u>
Total liabilities		<u>349,865</u>
NET ASSETS		
Invested in capital assets		372,262
Restricted for sinking fund		57,481
Unrestricted		<u>103,060</u>
Total net assets		<u>\$ 532,803</u>

The accompanying notes are an integral part of this statement.

Free Soil Community School District
STATEMENT OF ACTIVITIES
For the year ended June 30, 2007

<i>Functions/Programs</i>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating grants</u>	<u>Revenue and</u>
		<u>services</u>	<u>and contributions</u>	<u>Changes in</u>
				<u>Net Assets</u>
Governmental activities				Governmental
Instruction	\$ 633,856	\$ 1,658	\$ 118,035	\$ (514,163)
Support services	438,634	-	19,211	(419,423)
Food services	45,432	3,073	32,946	(9,413)
Athletics	10,965	6,199	5,106	340
Unallocated depreciation	7,650	-	-	(7,650)
Total governmental activities	<u>\$ 1,136,537</u>	<u>\$ 10,930</u>	<u>\$ 175,298</u>	(950,309)
General revenues				
Property taxes levied for				
General purposes				267,452
Sinking fund				83,197
Grants and contributions not restricted to specific programs				608,719
Investment earnings				6,282
Miscellaneous				25,290
Special item—gain on sale of land				44,725
Total general revenues and special item				<u>1,035,665</u>
Change in net assets				85,356
Net assets at July 1, 2006				<u>447,447</u>
Net assets at June 30, 2007				<u>\$ 532,803</u>

The accompanying notes are an integral part of this statement.

Free Soil Community School District
BALANCE SHEET
Governmental Funds
June 30, 2007

	General Fund	Sinking Fund	Other governmental funds	Total governmental funds
ASSETS				
Cash and cash equivalents	\$ 315,061	\$ 75,225	\$ 307	\$ 390,593
Receivables	3,883	-	-	3,883
Due from other governmental units	108,080	-	-	108,080
Due from other funds	-	9,186	3,759	12,945
Prepaid items	7,850	-	-	7,850
Total assets	<u>\$ 434,874</u>	<u>\$ 84,411</u>	<u>\$ 4,066</u>	<u>\$ 523,351</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
State aid loan	\$ 130,000	\$ -	\$ -	\$ 130,000
Accounts payable	1,927	26,930	-	28,857
Accrued liabilities	137,693	-	3,726	141,419
Due to other governmental units	39,600	-	-	39,600
Due to other funds	12,945	-	-	12,945
Deferred revenue	960	-	-	960
Total liabilities	323,125	26,930	3,726	353,781
Fund balances				
Reserved				
Prepaid items	7,850	-	-	7,850
Sinking Fund	-	57,481	-	57,481
Unreserved				
Undesignated				
General Fund	103,899	-	-	103,899
School service	-	-	340	340
Total fund balances	<u>111,749</u>	<u>57,481</u>	<u>340</u>	<u>169,570</u>
Total liabilities and fund balances	<u>\$ 434,874</u>	<u>\$ 84,411</u>	<u>\$ 4,066</u>	<u>\$ 523,351</u>

The accompanying notes are an integral part of this statement.

Free Soil Community School District
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**
June 30, 2007

Total fund balance—governmental funds	\$ 169,570
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not current financial
resources and are not reported in the governmental funds.

Cost of capital assets	\$ 713,315	
Accumulated depreciation	<u>(341,053)</u>	372,262

Compensated absences in governmental activities are not due and payable
in the current period and are not reported in the governmental funds.

<u>(9,029)</u>

Net assets of governmental activities in the Statement of Net Assets

\$ <u><u>532,803</u></u>

The accompanying notes are an integral part of this statement.

Free Soil Community School District
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2007

	General Fund	Sinking Fund	Other governmental funds	Total governmental funds
REVENUES				
Local sources				
Property taxes	\$ 267,452	\$ 83,197	\$ -	\$ 350,649
Investment earnings	5,462	820	-	6,282
Fees and charges	-	-	9,272	9,272
Fundraising and contributions	10,681	-	5,106	15,787
Other	11,353	-	-	11,353
Total local sources	294,948	84,017	14,378	393,343
State sources	669,646	-	6,435	676,081
Federal sources	71,921	-	26,511	98,432
Total revenues	1,036,515	84,017	47,324	1,167,856
EXPENDITURES				
Instruction	634,557	-	-	634,557
Support services	367,269	-	-	367,269
Food services	-	-	45,432	45,432
Athletics	-	-	10,965	10,965
Capital projects	-	75,240	-	75,240
Total expenditures	1,001,826	75,240	56,397	1,133,463
Excess (deficiency) of revenues over (under) expenditures	34,689	8,777	(9,073)	34,393
OTHER FINANCING SOURCES (USES)				
Transfers from other governmental units and other transactions	64,312	-	-	64,312
Transfers in	-	-	9,413	9,413
Transfers out	(9,413)	-	-	(9,413)
Other transactions	(673)	-	-	(673)
Total other financing sources (uses)	54,226	-	9,413	63,639
Net change in fund balances	88,915	8,777	340	98,032
Fund balances at July 1, 2006	22,834	48,704	-	71,538
Fund balances at June 30, 2007	\$ 111,749	\$ 57,481	\$ 340	\$ 169,570

The accompanying notes are an integral part of this statement.

Free Soil Community School District
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended June 30, 2007

Net change in fund balances—total governmental funds	\$ 98,032
--	-----------

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities these costs are depreciated over their estimated useful lives.

Depreciation expense	(9,805)
----------------------	---------

Governmental funds report the entire proceeds from the sale of capital assets as revenue, but the Statement of Activities reports only the gain or loss on the sale of capital assets.

	(6,400)
--	---------

Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.

	<u>3,529</u>
--	--------------

Change in net assets of governmental activities

	<u><u>\$ 85,356</u></u>
--	-------------------------

The accompanying notes are an integral part of this statement.

Free Soil Community School District
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2007

	Agency funds
	<u> </u>
ASSETS	
Cash and cash equivalents	\$ 6,564
	<u> </u>
LIABILITIES	
Accounts payable	\$ 1,938
Deposits held for others	4,626
	<u> </u>
	\$ 6,564
	<u> </u>

The accompanying notes are an integral part of this statement.

Free Soil Community School District
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Free Soil Community School District (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

District-wide and Fund Financial Statements

District-wide Financial Statements – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

Free Soil Community School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

District-wide and Fund Financial Statements—Continued

Fund financial statements – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental funds:

- The *General Fund* is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.
- The *Sinking Fund* accounts for the sinking fund property taxes received for the acquisition of real estate, construction of school buildings or the repair of school buildings.

The other nonmajor governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service and athletic activities in the school service special revenue funds.

Fiduciary funds – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Free Soil Community School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Basis of Presentation—Continued

Modified Accrual Method—Continued

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30, 2007 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Other Accounting Policies

Deposit and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

Free Soil Community School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED

June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds”. The School District had no advances between funds.

Property Taxes

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2007, the School District levied the following amounts per \$1,000 of taxable valuation:

<u>Fund</u>	<u>Mills</u>
General Fund - Non-homestead	15.9172
Sinking Fund - Homestead and non-homestead	2.429

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Buildings and improvements	25-50 years
Buses and other vehicles	10 years
Furniture and other equipment	5-20 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Free Soil Community School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Compensated Absences

The liability for compensated absences reported in the district-wide statement consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

Deferred Revenue

Deferred revenue arises when assets are recorded before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets In District-wide Financial Statements

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. The School District has no capital related debt.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Free Soil Community School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Fund Equity In Fund Financial Statements

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

NOTE B—CHANGE IN OPERATIONS

On March 14, 2007 the Board of Education voted to approve the reduction of grades served. Previously the School District has served preschool through twelfth grade. The reduction provides for the serving of students in preschool through eighth grade, beginning with the 2007/2008 school year.

In June 2007, the School District entered into a four-year agreement (July 1, 2007 – June 30, 2011) with a neighboring school district that provides for the transportation and education of those Free Soil students in grades nine through twelve. The neighboring school district will count the Free Soil students in their school membership and receive the State of Michigan foundation allowance and any Section 31A-At Risk funding for those students. The state aid generated by these students shall be considered tuition for those students.

NOTE C—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual appropriations lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.

Free Soil Community School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE C—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Budgets and Budgetary Accounting—Continued

3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts within major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The School District does not consider these amendments to be significant.

Excess of Expenditures Over Appropriations

The School District did not have significant expenditure budget variances.

Sinking Fund

The Sinking Fund Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

NOTE D—DEPOSITS AND INVESTMENTS

As of June 30, 2007, the School District had no investments.

Interest rate risk. In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in interest rates by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

Concentration of credit risk. In accordance with its investment policy, the School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School District investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Free Soil Community School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE D—DEPOSITS AND INVESTMENTS—Continued

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2007, \$309,823 of the School District's bank balance of \$410,039 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. For an investment this is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The School District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the School District will do business.

Foreign currency risk. The School District is not authorized to invest in investments which have this type of risk.

NOTE E—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 55,100	\$ -	\$ 6,400	\$ 48,700
Capital assets, being depreciated:				
Buildings and improvements	634,620	-	-	634,620
Buses and other vehicles	29,995	-	-	29,995
Total capital assets, being depreciated	664,615	-	-	664,615
Less accumulated depreciation:				
Buildings and improvements	301,253	9,805	-	311,058
Buses and other vehicles	29,995	-	-	29,995
Total accumulated depreciation	331,248	9,805	-	341,053
Total capital assets, being depreciated, net	333,367	(9,805)	-	323,562
Capital assets, net	<u>\$ 388,467</u>	<u>\$ (9,805)</u>	<u>\$ 6,400</u>	<u>\$ 372,262</u>

Free Soil Community School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE E—CAPITAL ASSETS—Continued

Depreciation

Depreciation expense has been charged to functions as follows:

Instruction	\$ 2,155
Unallocated depreciation	<u>7,650</u>
	<u>\$ 9,805</u>

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2007 is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Sinking Fund	General Fund	\$ 9,186
Other governmental funds	General Fund	<u>3,759</u>
		<u>\$ 12,945</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

The General Fund transferred \$9,413 to the Food Services Fund to finance operations.

NOTE G—SHORT-TERM DEBT

The School District issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. The short-term debt activity for the year ended June 30, 2007 follows:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2007</u>
State aid anticipation note				
2005/2006 3.15% due August 2006	\$ 160,000	\$ -	\$ 160,000	\$ -
2006/2007 3.68% due August 2007	<u>-</u>	<u>130,000</u>	<u>-</u>	<u>130,000</u>
	<u>\$ 160,000</u>	<u>\$ 130,000</u>	<u>\$ 160,000</u>	<u>\$ 130,000</u>

Free Soil Community School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE H—LONG-TERM OBLIGATIONS

Summary of Long-term Obligations

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2007:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Due within</u> <u>one year</u>
Governmental activities:					
Compensated absences	\$ 12,558	\$ 4,320	\$ 7,849	\$ 9,029	\$ 1,000

NOTE I—EMPLOYEE BENEFITS

Employee Retirement System – Defined Benefit Plan

Plan description – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing Michigan 48909
1-800-381-5111

Funding policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

Free Soil Community School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE I—EMPLOYEE BENEFITS—Continued

Employee Retirement System – Defined Benefit Plan—Continued

Funding policy—Continued

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2007, was 17.74 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPSERS Board of Trustees. The School District contributions to MPSERS for the year ended June 30, 2007, 2006 and 2005 were approximately \$80,000, \$117,000 and \$127,000, respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other post-employment benefits – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

NOTE J—COMMITMENTS AND CONTINGENCIES

Commitments

- **Construction Contracts** – As of June 30, 2007, the School District had awarded construction contracts totaling approximately \$39,000. The contracts are the obligations of the Sinking Fund and the School District.

Contingencies

- **Litigation** – The School District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the School District's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the School District.
- **Grant Programs** – The School District participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

Free Soil Community School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE K—OTHER INFORMATION

Economic Dependence – Prior years revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 61 percent of General Fund revenues.

Risk Management – The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2007 or any of the prior three years.

NOTE L—SUBSEQUENT EVENT

On September 12, 2007, the School District received the proceeds of a \$92,500 tax anticipation note payable. The note payable is not subject to redemption prior to its maturity on June 30, 2008 and bears interest at the rate of 5.75 percent per annum. The School District pledged for payment of the note payable, a sufficient amount of property taxes to be received plus the full faith, credit, and resources of the School District.

REQUIRED SUPPLEMENTARY INFORMATION

Free Soil Community School District
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE

General Fund

For the year ended June 30, 2007

	Budgeted amounts			Variance with final budget - positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 328,100	\$ 294,421	\$ 294,948	\$ 527
State sources	703,723	663,859	669,646	5,787
Federal sources	43,019	72,433	71,921	(512)
Incoming transfers and other transactions	2,000	60,886	64,312	3,426
Total revenues	1,076,842	1,091,599	1,100,827	9,228
EXPENDITURES				
Instruction				
Basic programs	575,031	513,427	473,320	40,107
Added needs	82,682	162,186	161,237	949
Support services				
Pupil	14,725	1,536	1,536	-
Instructional staff	991	14,381	14,364	17
General administration	136,855	145,943	134,326	11,617
Business	32,066	35,027	38,008	(2,981)
Operations and maintenance	98,628	91,595	92,191	(596)
Pupil transportation services	95,540	86,213	81,985	4,228
Central	18,262	5,123	4,859	264
Outgoing transfers and other transactions	9,620	17,352	10,086	7,266
Total expenditures	1,064,400	1,072,783	1,011,912	60,871
Excess (deficiency) of revenues over (under) expenditures	\$ 12,442	\$ 18,816	88,915	\$ 70,099
Fund balance at July 1, 2006			22,834	
Fund balance at June 30, 2007			\$ 111,749	

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

September 24, 2007

Board of Education
Ron Nurnberger, Superintendent
Free Soil Community School District
Free Soil, Michigan

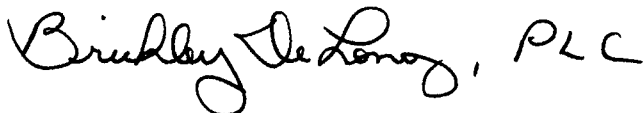
In planning and performing our audit of the financial statements of Free Soil Community School District as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Free Soil Community School District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the attached deficiencies in internal control that we consider to be significant deficiencies.

This communication is intended solely for the information and use of the Board of Education, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brickley DeLong, PLC". The signature is written in a cursive, flowing style.

SIGNIFICANT DEFICIENCIES

Segregation of Duties

Recommendation 1: Segregation of duties should be strengthened.

Although the small size of the School District's staff limits the segregation of duties, we believe certain steps could be taken to separate incompatible duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. Often, one of the most effective approaches is the expansion of documented approval of transactions and reconciliations by someone outside of the office staff.

The following are some suggested areas where improvements could be made:

- Cash—The monthly bank reconciliations should be reviewed and approved by someone independent of cash receipt and cash disbursement functions.
- Cash—The monthly bank statements should be received and reviewed for unusual items by someone independent of the bank reconciliation process.
- Cash disbursements—Approval of bills for payment by someone independent of the cash disbursement function should be documented before checks are prepared.
- Payroll—The payroll registers should be reviewed and approved after payroll is prepared by someone independent of those who prepare payroll.
- Journal entries—The journal entries prepared and entered into the accounting system should be reviewed and approved by appropriate personnel.
- Cross-training—An individual or individuals should be trained to perform day-to-day activities in the absence of the bookkeeper.

Payroll

Recommendation 2: Documentation of approved pay rates for non-union personnel should be improved.

During our audit, we noted in the Board of Education minutes that the Board approved various wage rates, but there is no documentation in the minutes or employee personnel files of those approved rates.

A listing of the approved wage rates signed by a member of the Board of Education or the Superintendent should be maintained by the business office or put in the employee personnel files.

Interim Obligations

Recommendation 3: The various due from/due to other fund account balances should be reconciled on a monthly basis.

During our audit, we noted that due from/due to other fund account balances were not reconciled on a regular basis during the year ended June 30, 2007. This causes such accounts to not be properly reported on monthly financial statements and required School District personnel to prepare a significant number of adjusting journal entries at year end.

The reconciliation of due from/due to other fund accounts on a monthly basis would increase the accuracy of monthly financial statement and reduce the reconciliation and adjustment process presently being required at year end.

SIGNIFICANT DEFICIENCIES

Cash Management

Recommendation 4: Cash management procedures should be improved.

During our audit, we noted that the draw down of federal funds only occurred in April and May of 2007. This created cash flow shortages during the first nine months of the year and then the final May 2007 draw, fully drew down the grants even though they were not fully spent at that time in violation of federal cash management rules.

The School District should develop procedures regarding the draw down of federal funds which include drawing funds on a monthly basis as funds are spent.

Health Insurance

Recommendation 5: Health insurance distributions should be adjusted monthly to agree to premiums paid.

During our audit, we noted that the monthly health insurance distribution posted to the general ledger did not agree to the current year health insurance rates creating an overstatement of current year health insurance expense.

The School District should develop procedures to ensure that the health insurance distribution is updated timely for changes in health insurance rates.

Financial Statement Preparation

Recommendation 6: The internal controls surrounding the preparation of formal year end financial statements should be improved.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year end financial statements.

The School District should review its procedures surrounding the preparation of year end financial statements to include the appointment of an individual with the requisite technical skills and experience to review the formal year end financial statements and accompanying footnotes, in relation to required disclosures in accordance with generally accepted accounting principles.

BRICKLEY DeLONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

September 24, 2007

Board of Education
Ron Nurnberger, Superintendent
Free Soil Community School District
Free Soil, Michigan

We have audited the financial statements of Free Soil Community School District as of and for the year ended June 30, 2007 and have issued our report thereon dated September 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Free Soil Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Free Soil Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Free Soil Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses, as Findings 1 - 6, to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Board of Education
Ron Nurnberger, Superintendent
September 24, 2007
Page 2

Internal Control Over Financial Reporting—Continued

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are not material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether Free Soil Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Free Soil Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Free Soil Community School District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

Free Soil Community School District
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2007

COMPLIANCE

NONE

SIGNIFICANT DEFICIENCIES

Fiscal 2007 Finding No. 1: Segregation of Duties

Criteria: Duties should be adequately segregated so as to separate incompatible duties.

Condition: Certain employees have access to both physical assets and the related accounting records or all phases of a transaction.

Cause: The School District is a small organization with limited opportunities for the segregation of duties.

Effect: Errors in processing transactions and financial reporting and the misappropriation of assets could go undetected.

Recommendation: Segregation of duties should be strengthened, including but not limited to:

- Cash—The monthly bank reconciliations should be reviewed and approved by someone independent of cash receipt and cash disbursement functions.
- Cash—The monthly bank statements should be received unopened and reviewed for unusual items by someone independent of the bank reconciliation process.
- Cash disbursements—Approval of bills for payment by someone independent of the cash disbursement function should be documented before checks are prepared.
- Payroll—The payroll registers should be reviewed and approved after payroll is prepared by someone independent of those who prepare payroll.
- Journal entries—The journal entries prepared and entered into the accounting system should be reviewed and approved by appropriate personnel.
- Cross-training—An individual or individuals should be trained to perform day-to-day activities in the absence of the bookkeeper.

School District Response: The School District agrees with the finding.

Free Soil Community School District
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2007

Fiscal 2007 Finding No. 2: Documentation of Approved Pay Rates

Criteria: Approved pay rates should be documented and maintained in employee personnel files.

Condition: The Board of Education approved various wage rates during the year, but there is no documentation in the minutes or employee personnel files of those approved rates.

Cause: The Board of Education approved a schedule of wages provided to them, but those approved rates were only verbally communicated to the payroll clerk.

Effect: If questions arise about an employee's rate of pay, there is no documentation to support that wage.

Recommendation: A listing of the approved wage rates signed by a member of the Board of Education or the Superintendent should be provided to the payroll clerk to be maintained in the business office or in the employee personnel files. Rates could also be recorded in the minutes of the Board of Education, with a copy provided to the payroll clerk.

School District Response: The School District agrees with the finding.

Fiscal 2007 Finding No. 3: Reconcile Due From/Due to Balances Monthly

Criteria: Due from/due to other fund account balances should be reconciled monthly.

Condition: The due from/due to other fund account balances were not reconciled on a regular basis during the year ended June 30, 2007.

Cause: There was no internal control procedure in place to make sure this happened.

Effect: This causes such accounts to not be properly reported on monthly interim financial statements and required School District personnel to prepare a significant number of adjusting journal entries at year end.

Recommendation: The due from/due to other fund account balances should be reconciled monthly to increase the accuracy of the monthly interim financial statements and reduce the reconciliation and adjustment process required at year end.

School District Response: The School District agrees with the finding.

Free Soil Community School District
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2007

Fiscal 2007 Finding No. 4: Cash Management Procedures Should be Improved

Criteria: Federal grant funds should be drawn down monthly as spent to improve cash flow, but not before being spent.

Condition: The draw down of federal funds only occurred three times during the fiscal year. The first draw was in April 2007 and the other two draws occurred in May 2007. The second May 2007 draw fully drew down the grants even though they were not fully spent at that time.

Cause: The grant application was not filed timely nor was the October lunch count form, which prevented the School District from drawing funds earlier in the fiscal year.

Effect: By not filing the grant application and other reports timely a cash flow shortage was created since funds could not be drawn down. Drawing funds down before they are spent is a violation of federal cash management rules and can subject the district to an interest penalty that would have to be paid back.

Recommendation: The School District should develop procedures to ensure the timely filing of the grant applications and all other reports and draw funds monthly as they are spent and not draw those funds early.

School District Response: The School District agrees with the finding.

Fiscal 2007 Finding No. 5: Health Insurance Distribution Should be Adjusted Timely

Criteria: Health insurance postings to the general ledger should agree to the monthly expense.

Condition: The monthly health insurance distribution posted to the general ledger did not agree to the current year health insurance rates creating an overstatement of current year health insurance expense.

Cause: The monthly health insurance distribution posted to the general ledger was based on the prior year health insurance premiums and was not corrected to agree to the current year rates.

Effect: The health insurance expense was overstated all year creating inaccurate monthly financial reporting.

Recommendation: The School District should develop procedures to ensure that the health insurance distribution is updated timely for changes in health insurance rates.

School District Response: The School District agrees with the finding.

Free Soil Community School District
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2007

Fiscal 2007 Finding No. 6: Financial Statement Preparation

Criteria: The preparation of the formal financial statements should have documented control procedures.

Condition: There are currently no internal controls related to the preparation and review of the formal year end financial statements.

Cause: The School District is a small organization with limited resources and personnel have difficulty in establishing and maintaining effective internal controls related to the preparation and review of the formal financial statements.

Effect: There could be errors and omissions in the financial statements that go undetected.

Recommendation: The School District should review its procedures surrounding the preparation of year end financial statements to include the appointment of an individual with the requisite technical skills and experience to review the formal year end financial statements and accompanying footnotes, in relation to required disclosures in accordance with generally accepted accounting principles.

School District Response: The School District agrees with the finding.